MULTIMEDIA UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

PEM0024 – ESSENTIALS OF MICROECONOMICS

(All sections / Groups)

1 MARCH 2019
9 a.m. – 11 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FIFTEEN (15)** printed pages (including the cover page) with:
   Section A: Forty (40) multiple choice questions (40%)
   Section B: Three (3) structured questions (60%)

2. Answer **ALL** questions.

3. Shade all answers to **Section A** in the multiple-choice answer sheet provided and **Section B** in the answer booklet provided (including tables and graphs).

4. Marks are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. The long run is a period of time in which
   A. the quantities of all inputs can be varied.
   B. the firm can hire all the workers that it wants to employ, but it does not have sufficient time to buy more equipment.
   C. the firm is able to maximize total profit.
   D. the firm may want to build a bigger plant, but cannot do so.

2. **Table 1** represents a firm's short-run total cost schedule. When output goes up from four to five shirts, the marginal cost is

Table 1

Output	Total Cost (RM)
3	30
4	55
5	70
6	79

   A. RM30
   B. RM25
   C. RM15
   D. RM9

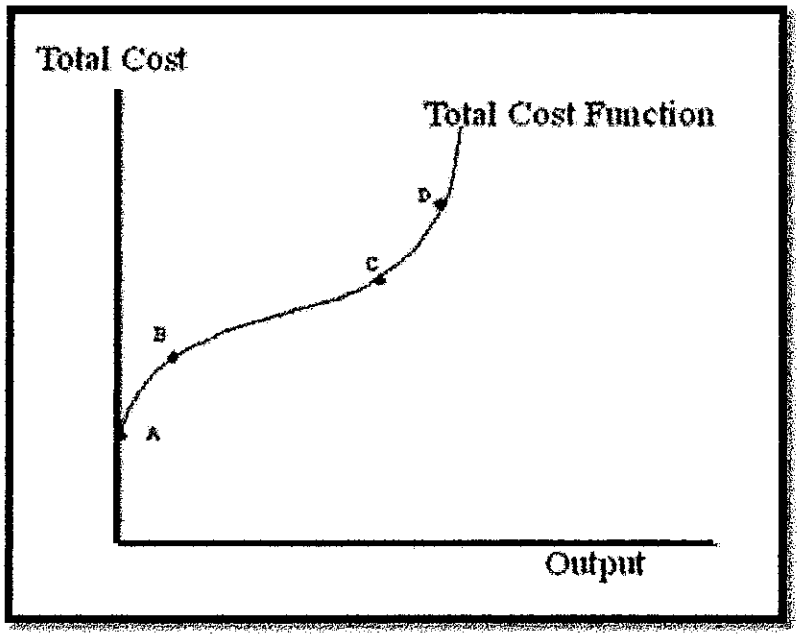
3. A competitive firm maximizes profit by choosing the quantity at which
   A. average total cost is at its minimum.
   B. marginal cost equals the price.
   C. average total cost equals the price.
   D. marginal cost equals average total cost.

4. Which of the following is **NOT** an explicit cost?
   A. The firm owner's time.
   B. Utilities, such as electricity and water.
   C. Insurance.
   D. Salaries.

Continued...

5. Based on the graph in the **Figure 1**, the reason that point A does not start from the origin but starts up on the vertical axis is that

Figure 1



A. there are fixed outputs.
B. there are fixed costs.
C. these is no cost associated with producing no output.
D. there is waste.

6. The primary source of scale diseconomies appears to be
A. too little demand for the firm's product.
B. division of labor.
C. a firm's inability to acquire quality resources.
D. the organizational difficulties of managing an ever large enterprise.

7. Katie gives piano lessons at RM15 per hour. She also grows flowers, which she arranges and sells at the local night market. One day she spends 5 hours in planting RM50 worth of seeds in her garden and arranging the flowers. Once the seeds have grown into flowers, she can sell them for RM150 at the farmer's market. If Katie were to sell the flowers rather than give piano lessons, her accounting profits are ..... and her economic profits are ..... .
A. RM100; RM25.
B. RM100; RM75.
C. RM25; RM100.
D. RM75; RM125.

Continued...

8. What is a cartel?
   A. A group of companies that get together and fix prices between them.
   B. A list of prices.
   C. The various prices charged across a product range.
   D. The means of converting prices into another currency.

9. Referring to data displayed in **Table 2**, what is the marginal product of the first worker?

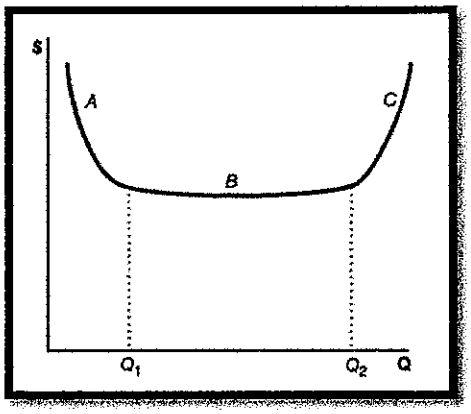
Table 2

Number of Workers	Total Output	Marginal Product
0	0	
1	200	
2	450	
3	600	
4	650	

   A. 250 units
   B. 200 units
   C. 150 units
   D. 50 units

10. **Figure 2** below shows a long-run average cost curve.

Figure 2



The portion of the curve in which the firm has diseconomies of scale is ..... ; the portion of the curve in which the firm has economies of scale is ..... and the portion of the curve in which the firm has constant returns to scale is ..... .

   A. C; B; A.
   B. B; C; A.
   C. C; A; B.
   D. A; B; C.

Continued...

11. Which of the following is a condition for a market to be perfectly competitive?
    A. Products are homogeneous.
    B. There are many buyers, each purchasing a small quantity.
    C. There are many sellers, each supplying a small quantity.
    D. All of the above are conditions for perfect competition.

12. In the long run, a monopolistically competitive firm
    A. earns zero economic profits.
    B. earns positive economic profit.
    C. faces a vertical demand curve.
    D. faces a horizontal demand curve.

13. Negative marginal utility means that
    A. total utility is also negative.
    B. marginal utility is increasing.
    C. the price of the product is increasing as additional units are consumed.
    D. total utility is decreasing as additional units are consumed.

14. **Table 3** below is a total utility schedule.

Table 3

Quantity Consumed	Total Utility
0	0
1	100
2	200
3	270
4	320
5	350

At which level of quantity consumed does marginal utility begin to diminish?
    A. 1
    B. 2
    C. 3
    D. 4

15. Which market structure has the highest degree of control over the price of its product?
    A. Perfect competition
    B. Monopolistic competition
    C. Oligopoly
    D. Monopoly

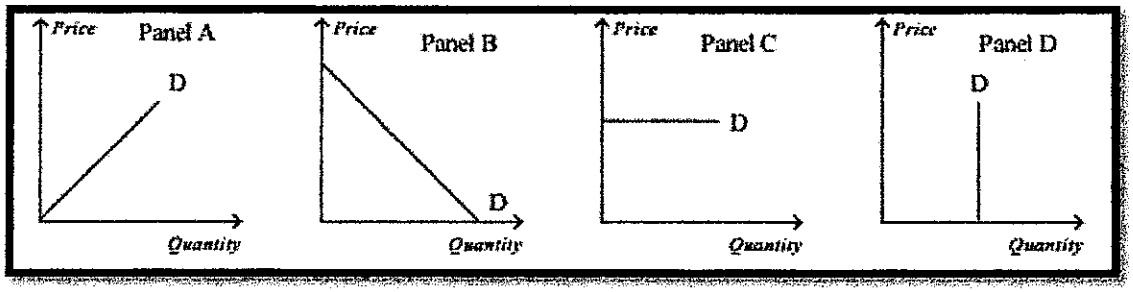
Continued...

16. An indifference curve shows combinations of two goods that
    A. could provide the consumer with different levels of satisfaction.
    B. would provide the consumer with the same level of satisfaction.
    C. could be available to the consumer in a given time period.
    D. a consumer could buy with their given income.

17. If marginal revenue exceeds marginal cost, a monopolist should
    A. increase output.
    B. decrease output.
    C. keep output the same because profits are maximized when marginal revenue exceeds marginal cost.
    D. raise the price.

18. Based on the price-quantity graphs shown in **Figure 3**, which of the following statements is true?

Figure 3



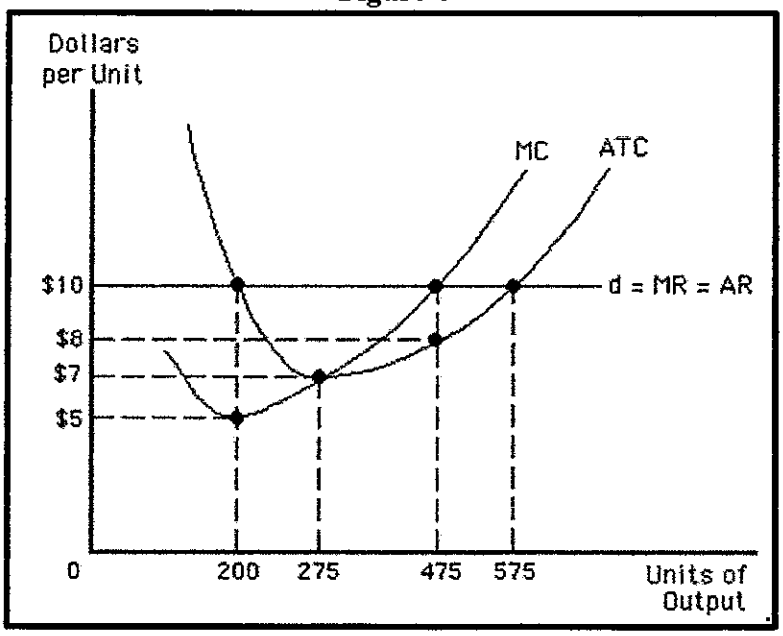
    A. Panel B is demand curve faced by a monopolist and Panel C is demand curve faced by a perfectly competitive firm.
    B. Panel B is demand curve faced by a perfectly competitive firm and Panel C is demand curve faced by a monopolist.
    C. Panel D is demand curve faced by a perfectly competitive firm and Panel B is demand curve faced by a monopolist.
    D. Panel A is demand curve and Panel B is supply curve in a competitive market.

19. All of the following are characteristics of a perfectly competitive market, except
    A. a large number of sellers.
    B. a standardized product.
    C. there are barriers to entry.
    D. sellers can easily exit the market.

Continued...

20. In short run equilibrium as illustrated in **Figure 4**, the perfectly competitive firm will produce

Figure 4



A. 200 units of output.
B. 275 units of output.
C. 475 units of output.
D. 575 units of output.

21. Which would definitely **NOT** be an example of price discrimination?
A. A theatre charges children less than adults for a movie.
B. Universities charge higher tuition fees to foreign students.
C. A doctor charges for services according to the income of patients.
D. An electric power company charges less for electricity used during off-peak hours when production costs are lower.

22. A major difference between monopoly and monopolistic competition is
A. one maximizes profits by setting marginal revenue equal to marginal cost, and the other does not.
B. the number of firms in the market.
C. one type of firm has market power, and the other does not.
D. one has a downward-sloping demand curve, and the other does not.

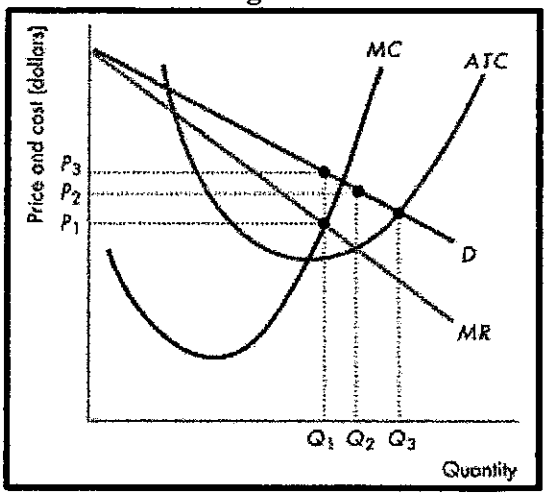
Continued...

23. Which of the following is an example of product differentiation?
    A. Two bars of soap differ only in their label, but consumers pay RM1 more for the label they recognize.
    B. Sugar can be made from sugar beets or sugar cane which consumers cannot differentiate when looking at sugar.
    C. Consumers substitute vans in place of cars because vans accommodate more passengers.
    D. Some sawmills specialize in producing softwood and others specialize in producing hardwood, but the two types of wood are used for very different purposes.

24. The marginal revenue received by a firm in a perfectly competitive market
    A. is greater than the market price.
    B. is less than the market price.
    C. is equal to its average revenue.
    D. increases with the quantity of output sold.

25. **Figure 5** below shows a monopolistically competitive firm in the short run.

Figure 5



How much output does the firm produce?
A. Q_1
B. Q_2
C. Q_3
D. None of the above

Continued...

26. Which of the following correctly ranks the market structures from least competitive to the most competitive?
    A. Monopolistic competition, perfect competition, oligopoly, monopoly.
    B. Monopolistic competition, monopoly, oligopoly, perfect competition.
    C. Perfect competition, monopolistic competition, oligopoly, monopoly.
    D. Monopoly, oligopoly, monopolistic competition, perfect competition.

27. Economies of scale are sometimes a barrier to entry because
    A. it is expensive to advertise enough to gain visibility in the market.
    B. one must obtain the latest technology to produce some products competitively.
    C. it can cost a lot to build a plant large enough to achieve low production costs.
    D. government may decide that the public is best off if those economies are protected by law.

28. Which is the defining characteristic of oligopoly?
    A. Many firms.
    B. Minimal barriers to entry.
    C. Intense rivalry.
    D. All of the above are defining characteristics of oligopoly.

29. Total utility is maximum when
    A. marginal utility is maximum.
    B. marginal utility is zero.
    C. average utility is maximum.
    D. average utility is zero.

30. Indifference curves never intersect each other due to
    A. difference levels of satisfaction.
    B. same levels of satisfaction.
    C. convex to origin.
    D. concave to origin.

31. Utility is defined as
    A. usefulness of a purchased product.
    B. value of the money a consumer spends on a good.
    C. satisfaction or pleasure from consuming a good.
    D. extra income a consumer gets from buying a good at a lower price.

Continued...

32. **Table 4** below shows a hypothetical total utility schedule for a consumer of chocolate candy bars.

Table 4

Quantity Consumed (bar(s))	Total Utility
0	0
1	9
2	19
3	27
4	35
5	42
6	42
7	40

Marginal utility becomes negative with the consumption of the ..... candy bar.

A. fourth
B. fifth
C. sixth
D. seventh

33. An indifference curve slope down towards right since more of one commodity and less of another result in

A. same satisfaction.
B. greater satisfaction.
C. maximum satisfaction.
D. decreasing expenditure.

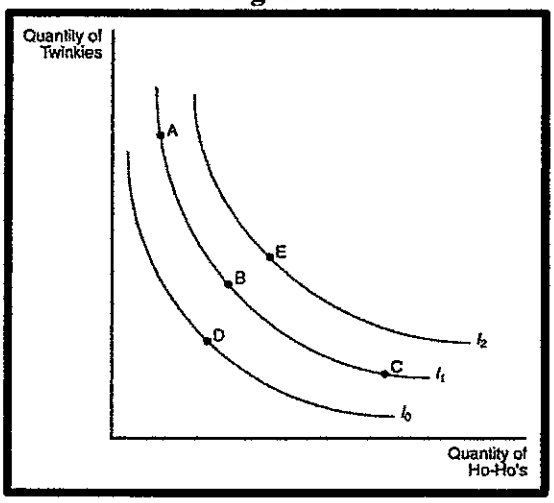
34. The principle of diminishing marginal utility means that when Sarah eats pizza, her satisfaction from the second slice of pizza is probably

A. greater than that from the first.
B. equal to that from the first.
C. less than that from the first.
D. not comparable to that from the first.

Continued...

35. Based on **Figure 6**, which of the following statements is correct?

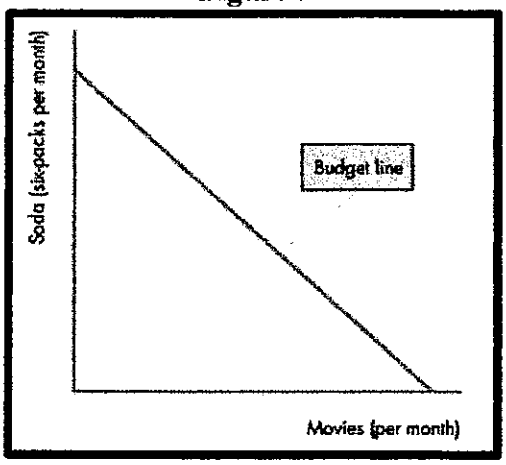
Figure 6



A. Point A is preferred equally to point E.
B. Point A is preferred equally to point C.
C. The bundle associated with point B contains more Ho-Ho's than that associated with point C.
D. The bundles along indifference curve I_1 are preferred to those along indifference curve I_2.

36. Suppose that this consumer's income increases and nothing else changes, as shown in **Figure 7**. As a result, the consumer's budget line

Figure 7



A. rotates around the vertical intercept and becomes steeper.
B. rotates around the vertical axis and becomes shallower.
C. shifts rightward and becomes steeper.
D. shifts rightward and its slope does not change.

Continued...

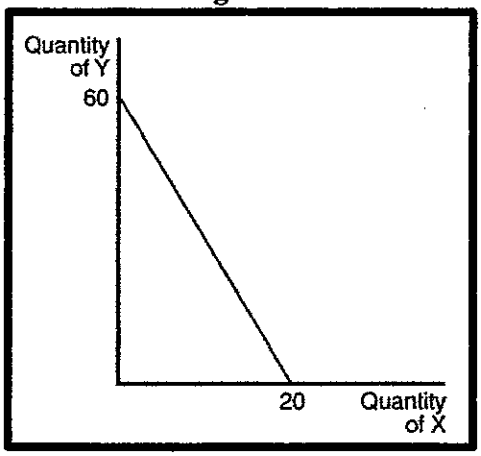
37. Price wars are
    A. most likely when there is a monopoly.
    B. most likely when there is perfect competition.
    C. most likely when there is oligopoly.
    D. equally likely in the cases of monopoly, oligopoly and perfect competition.

38. Which of the following would most likely be a monopoly?
    A. An airline service.
    B. A supermarket.
    C. An electricity provider.
    D. A dentist's office.

39. Which of the following best describes a successful monopolist?
    A. The only buyer of a resource or type of labor.
    B. The only seller of a difficult-to-substitute product.
    C. The only buyers of a consumer product.
    D. The only seller of a non-essential product.

40. Based on the graph shown in **Figure 8**, if income is equal to RM120, the price of Good Y is

Figure 8



    A. RM1.
    B. RM2.
    C. RM4.
    D. RM6.

Continued...

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

Question 1 (20 marks)

Assume that Mary finds only three goods, A, B and C, for sale and the amount of utility from the consumption are shown in the **Table 5** below. Prices for Good A, B and C are RM5, RM1 and RM4 respectively; and Mary's income is RM37.

Note:
Q = Quantity
TU = Total utility
MU = Marginal utility
MU/P = Marginal utility per RM

Table 5

Good A				Good B				Good C			
Q	**TU**	**MU**	**MU/ P**	**Q**	**TU**	**MU**	**MU/ P**	**Q**	**TU**	**MU**	**MU/ P**
0	0			0	0			0	0		
1	21			1	7			1	23		
2	41			2	13			2	40		
3	59			3	18			3	52		
4	74			4	22			4	60		
5	85			5	25			5	65		
6	91			6	27			6	68		

(a) Reproduce **Table 5** in your answer booklet. Complete **Table 5** by calculating marginal utility for Good A, B and C.

(6 marks)

(b) Calculate marginal utility per RM for Good A, B and C.

(9 marks)

(c) When maximizing her utility within her budget, how many units of Good A, B and C will she buy? Explain your answer.

(5 marks)

Continued...

Question 2 (20 marks)

Table 6 below shows the production of Nini Company. All transactions are in Ringgit Malaysia (RM).

Table 6

Quantity	Price	Total Cost	Total Revenue	Marginal Revenue	Marginal Cost	Profit
0	5	9				
1	5	10				
2	5	12				
3	5	15				
4	5	19				
5	5	24				
6	5	30				
7	5	45				

(a) Reproduce **Table 6** in your answer booklet. Complete **Table 6** by filling up the following columns:

(i) Total Revenue

(4 marks)

(ii) Marginal Revenue

(1 mark)

(iii) Marginal Cost

(4 marks)

(iv) Profit

(4 marks)

(b) In which market structure is Nini Company in? Explain.

(2 marks)

(c) What is the profit maximizing price and quantity for this firm? Explain.

(3 marks)

(d) Is this firm operating in the short run or long run period? Explain.

(2 marks)

Continued...

Question 3 (20 marks)

Suppose a firm is operating with a fixed amount of capital of RM100 and a variable amount of labor at RM20 per person. The firm's fixed and variable costs are in **Table 7**. All cost transactions are in Ringgit Malaysia (RM).

Table 7

Labor Input (units)	Total Product (units)	Variable Cost	Fixed Cost	Total Cost	Marginal Cost
0	0	0	100		
1	5	20	100		
2	15	40	100		
3	23	60	100		
4	27	80	100		
5	29	100	100		
6	30	120	100		
7	30	140	100		

(a) Reproduce **Table 7** in your answer booklet. Complete **Table 7** by filling up these columns:

(i) Total Cost

(4 marks)

(ii) Marginal Cost

(4 marks)

(b) Apart from the example given in this question, provide:

(i) **TWO (2)** examples of a fixed input.

(4 marks)

(ii) **TWO (2)** examples of a variable input.

(4 marks)

(c) Identify **TWO (2)** differences between accounting profit and economic profit.

(4 marks)

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